

LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 6131

BILL NUMBER: HB 1115

DATE PREPARED: Nov 16, 1998

BILL AMENDED:

SUBJECT: College Savings Tax Credit.

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FUNDS AFFECTED: ☒ **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues		(1,080,000)	(1,500,000)
State Expenditures			
Net Increase (Decrease)		(1,080,000)	(1,500,000)

Summary of Legislation: This bill would provide a refund of adjusted gross income tax payments made by a taxpayer who deposits money into the Indiana Family College Savings Trust Fund (the Fund) for a dependent. It would require that the Department of State Revenue pay the refund into the individual trust account of the dependent. It would make the refund nontaxable, and would provide a penalty for withdrawals from the Fund that are not used for an allowable purpose of the Fund.

Effective Date: January 1, 1999 (retroactive); January 1, 2000 (retroactive).

Explanation of State Expenditures: There would be some administrative costs for the Department of Revenue to revise tax forms, instructions and computer programs to implement this new provision. The Department of Revenue would be directed to deposit the credit into the individual trust account in which the taxpayer made a deposit of family college savings for a dependent.

There would also be some indeterminable administrative costs to the Commission on Higher Education and the contractor of the Fund.

Explanation of State Revenues: This bill would provide a credit to a taxpayer who makes a deposit into the Fund's individual trust account for the taxpayer's dependent. The amount of the credit would be equal

to the lesser of 50% of the deposit or \$250 per dependent (the credit may not exceed the taxpayer's adjusted gross income tax liability). If the credit exceeds the taxpayer's liability, the excess may be carried over to the immediately following three taxable years. The state credit would be deposited into the individual's trust account, and would be exempt from state income tax. In general, this bill would provide a cash incentive of \$250 to taxpayers who deposit \$500 into an individual trust account.

If funds are withdrawn for which the credit was taken and not used in conformity with the purposes of the Indiana Family College Savings Trust Fund, the taxpayer would be subject to a penalty in the amount of the credit granted. The Indiana Education Savings Authority would be allowed to withhold the penalty and direct the payment to the Department of Revenue (rules may be adopted for waiving the penalty in the case of hardships or special circumstances).

Based on an analysis conducted by the Indiana Commission for Higher Education (ICHE) of other college savings programs in the country, it is estimated that this program will take approximately four years before it reaches its maximum participation of approximately 6000 new accounts each year.

To date, there has been a total of approximately 2,322 accounts established for the Fund. Of this amount, 607 were established in CY 1997, and 1,715 were established in CY 1998. Based on the assumption that the number of new accounts would increase by approximately 2000 each year until CY 2001, and would remain constant at approximately 6000 thereafter, approximately \$1,080,000 would be deposited in the Fund's individual trust accounts during FY 2000 and approximately \$1,500,000 during FY 2001 and thereafter.

ICHE's analysis includes all kindergarten to 12th grade students, assumes the maximum credit, adjusts for accounts abandoned or terminated early but does not account for any recaptured credits.

Tax credits, in accordance with this bill, would come from State General Fund transfers since individual income tax revenue is deposited into the State General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: The Department of Revenue, Indiana Commission on Higher Education.

Local Agencies Affected:

Information Sources: Kent Weldon, Indiana Commission on Higher Education (464-4400).